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U.S. Internal Revenue
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Title:

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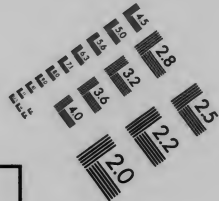
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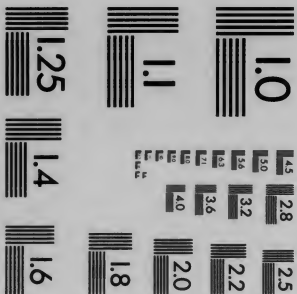
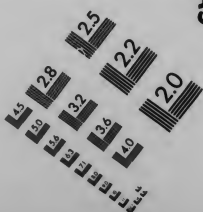


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65TH CONGRESS }
2d Session

HOUSE OF REPRESENTATIVES

{ DOCUMENT
No. 841

TREASURY DEPARTMENT
UNITED STATES INTERNAL REVENUE

INCOME TAX PRIMER

PREPARED BY THE BUREAU OF
INTERNAL REVENUE FOR THE INFORMATION
AND ASSISTANCE OF TAXPAYERS



WASHINGTON
GOVERNMENT PRINTING OFFICE
1918

Business

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IN THE HOUSE OF REPRESENTATIVES,
January 19, 1918.

Ordered, That 38,910 copies of the Income Tax Primer, prepared by the Bureau of Internal Revenue for the information and assistance of taxpayers, be printed for the use of the House of Representatives and distributed through the folding room.

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INCOME TAX PRIMER.¹

RETURNS.

1. Am I required to render a personal income-tax return for the year 1917?

Yes; if unmarried and your net income for that year equals or exceeds \$1,000. If you are married no return is required unless your net income, including that of your husband or wife and dependent children, equals or exceeds \$2,000.

If you act as the guardian of a minor or incompetent person, or as the administrator, executor, or trustee of an estate or trust, a return will be required of you for and in behalf of your ward, or the estate or trust for which you act, if the conditions outlined under the head of "Fiduciaries," as requiring a return, are present in your case.

2. Where should my personal return for the year 1917 be filed?

Section 8 (a) of the act of September 8, 1916, provides that your return may be filed with the collector of internal revenue for the district in which you have your legal residence or principal place of business. If your legal residence is located in one collection district and your principal place of business in another, it is optional with which collector your return shall be filed; but for administrative reasons the Commissioner of Internal Revenue desires that it be filed with the collector of the district in which your legal residence is located.

3. When may my 1917 return be filed with a collector of internal revenue?

On any day after December 31, 1917, but not later than March 1, 1918.

4. Will failure to file my return within the time prescribed by law render me liable to any penalty?

Yes. Under the provisions of section 18 of the act of September 8, 1916, as amended, you will be liable to a specific penalty of not less than \$20 nor more than \$1,000 if you fail to have your 1917 return in the office of the collector of internal revenue for your district before the close of business on March 1, 1918; and, under the provisions of section 3176, Revised Statutes, you will also be liable to 50 per cent additional tax.

Therefore, you should use extreme care to see that your return is placed in the mails in ample time to reach the office of your collector before the close of business March 1, 1918.

¹ Information not afforded by this Primer may be obtained by making application to collectors of internal revenue.

5. May an extension of time beyond March 1, 1918, be obtained for the filing of my 1917 return?

Yes. If, on account of illness or absence from home, you are unable to render your return within the time prescribed by law, you may obtain an extension of 30 days if a request therefor is filed with the collector of your district before the due date of the return. (See sec. 3176, R. S.) In this request you must state the reason why the return can not be filed within the time prescribed by law.

Collectors of internal revenue are not authorized to grant extensions of more than 30 days, but the Commissioner of Internal Revenue has authority under the provisions of section 14 (c) of the act of September 8, 1916, to grant a reasonable extension beyond 30 days in meritorious cases. If you desire an extension of more than 30 days, your request should be addressed to the commissioner and should contain a detailed statement covering the reasons which make it impossible for you to file your return on or before March 1.

6. Would a personal return rendered by an agent, for and in my behalf, be accepted?

If by reason of illness, absence, or nonresidence a taxpayer is unable personally to render his return, he may appoint an agent to act for him, and the return executed by the agent will be accepted if he makes affidavit that he has sufficient knowledge to make a complete and accurate return for his principal and assumes responsibility for making the return and incurring the penalties provided for a delinquent, erroneous, false, or fraudulent return.

7. What would happen should a taxpayer render a false or fraudulent return with intent to evade a proper payment of income tax?

Under the provisions of section 3176, Revised Statutes, he would become liable to an additional tax of 100 per cent, and under the provisions of section 18 of the act of September 8, 1916, as amended, to a fine of not to exceed \$2,000, or to one year's imprisonment, or both, in the discretion of the court, and to the costs of prosecution.

8. May a husband and wife, living together, and each receiving an independent income, render separate returns?

Yes. If the husband and wife each receive an independent income equal to or in excess of \$1,000, separate returns may be rendered. If, however, the income of either is less than \$1,000, but their combined income equals or exceeds \$2,000, a joint return should be rendered.

Where husband and wife file separate returns, one of them being filed within the time prescribed by law, the other delinquent, such returns are not held to be supplemental to each other, and delinquency must be answered for by the one in connection with whose return it occurred.

9. If a husband and wife render a joint return, is the additional tax assessed against that return based upon the aggregate amount of income shown?

No. The normal income tax will be assessed against the aggregate amount reported by the husband and wife whether joint or separate returns are rendered, but the additional income taxes are only assessed against the separate income of each.

10. Is a married man entitled to a personal exemption of \$2,000, and \$400 additional exemption on account of two dependent children, whose total net income does not exceed \$2,400, but does equal or exceed \$2,000, required to render a return?

Yes. While he will not be required to pay an income tax, he is required to render a return if his net income equals or exceeds \$2,000.

11. I act as agent for a nonresident alien individual. What responsibilities are imposed upon me by the income-tax law?

As the agent of a nonresident alien individual, you are responsible for correct returns of all income accruing to your principal within the purview of the agency, and for payment of any and all taxes assessed against that return.

12. If an individual engaged in business takes an inventory and closes his books on any day during a calendar year, can he render his personal income tax return on the basis of that fiscal year?

No. A personal-income tax return can not be rendered for any other period than a full calendar year.

13. Where can I get the blank form upon which to render my return?

From the collector of internal revenue for your district. The collector will endeavor to have such forms sent to you, but failure to receive one will not excuse you from making a return. If you do not receive one, it is your duty to request the collector to furnish you with a copy.

RATE OF TAX.

14. What personal income taxes are imposed upon income received during the calendar year 1917?

In computing income tax liability for the year 1917 the normal and additional income taxes imposed by the act of September 8, 1916, and also the act of October 3, 1917, are to be considered.

Under section 1 (a) of the former act a normal income tax of 2 per cent is imposed upon so much of an individual's net income, exclusive of that derived from dividends on the capital stock, or from the net earnings of corporations, joint-stock companies, etc., subject to like tax, as exceeds the amount of personal exemption to which he is entitled under section 7; and so much of his total net income, including that derived from individuals and net earnings of corporations, as exceeds \$20,000 is subject to the additional income tax at the graduated rates prescribed by section 1 (b).

Under section 1 of the act of October 3, 1917, so much of the individual's net income, exclusive of dividends, etc., as exceeds the amount of personal exemption allowed by section 3 is subject to an additional normal tax of 2 per cent, and that portion of his total net income, including dividends, as exceeds \$5,000 is subject to the additional income tax at the graduated rates specified in section 2, act of October 3, 1917.

EXEMPTION.

15. What amount of personal exemption is allowed by each of the two acts?

Section 7 of the act of September 8, 1916, allows a personal exemption of \$3,000 to unmarried persons, plus \$1,000 additional if the person making the return be the head of a family or a married man with a wife living with him. This additional exemption of \$1,000 is allowed if the person making the return is a married woman with a husband living with her, but in no event shall this additional \$1,000 be deducted by both husband and wife.

The exemptions allowed by section 3 of the act of October 3, 1917, are the same as under the act of September 8, 1916, except that the exemptions of \$3,000 and \$4,000 allowed by the 1916 act are, respectively, \$1,000 and \$2,000.

In addition, a further exemption of \$200 is allowed for each dependent child under 18 years of age, or over that age if incapable of self-support because mentally or physically defective, and this is allowed in computing normal tax liability under both acts.

16. May a widower or widow whose wife or husband died during the latter part of the tax year, say, December 26, claim the full amount of personal exemption allowed to a married person?

No. The marital status of the person rendering the return as of December 31 of the tax year determines the amount of exemption which may be claimed.

17. What is meant by the term "Head of a family"?

Treasury Decision 2427 states that a "head of a family" is held to be a person who actually supports and maintains one or more individuals who are closely connected with him by blood relationship, relationship by marriage or by adoption, and whose right to exercise family control and provide for these dependent individuals is based upon some moral or legal obligation.

INCOME, GROSS AND NET.

18. What income, if any, is exempt?

(a) The proceeds of life insurance policies paid to individual beneficiaries upon the death of the insured.

(b) The amount received by the insured, as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity or surrender, of the insurance contract.

(c) The value of property acquired by gift, bequest, devise, or descent. It must be understood, however, that the income derived from such property is taxable.

(d) Interest upon the obligations of a State, or any political subdivision of a State, or upon the obligations of the United States, except in the case of obligations of the United States issued after September 1, 1917, only to the extent provided in the act authorizing their issue.

(e) Interest upon the obligations of any possession of the United States, or securities issued under the provisions of the Federal farm-loan act of July 17, 1917.

(f) The compensation of the present President of the United States during the term for which he has been elected, and the judges of the Supreme and inferior courts of the United States in office on October 3, 1917.

(g) The compensation of all officers and employees of a State or any political subdivision of a State, except when such compensation is paid by the United States Government. This includes the official salaries received by public-school teachers, State and county officers, and employees of municipalities; but income derived by such persons from sources other than State, county, or municipal funds, and the other sources enumerated in this answer, is taxable. (See sec. 4, act of Sept. 8, 1916, as amended.)

INCOME.

19. What is meant by the term "Net income"?

For the purpose of determining whether or not a personal income tax return should be rendered, net income means your total gross income less the exemptions specified in the answer to the eighteenth question and the general deductions specified in the answer to the fifty-eighth question.

20. In rendering a return what items of income must I report under gross income?

Under GROSS INCOME should be reported every item of income derived from any source whatever (except those specified in the answer to question 18) actually received during the calendar year for which the return is rendered, whether received in cash or the equivalent of cash, including:

(a) All amounts of salary, wages, commissions, or compensation of whatever kind, received for personal service, including professional fees.

(b) All amounts of gain, profit, or income derived from a business, trade, commerce, or from any sale of property, real, personal, or mixed. The method of ascertaining the amount of gain or profit derived from a sale is outlined in the answer to question 26.

(c) Rents, interest on notes, mortgages, deeds of trust, or other securities issued by individuals, partnerships, etc., interest on bonds, mortgages, deeds of trust, or other similar obligations of corporations, joint-stock companies, associations, or insurance companies, and interest on bank deposits.

(d) All income received from fiduciaries—that is, amounts received from incomes of estates, trusts, etc., through trustees, administrators, or executors.

(e) If you have an interest in a partnership you should report your distributive share of the earnings or profits of the partnership ascertained during the calendar year for which the return is rendered, whether distributed to you or not; that is, if the fiscal year of the partnership ends on December 31 of that year your distributive share of its earnings or profits ascertained upon the close of the

books on December 31 should be returned. If the partnership ends its fiscal year on some day during the calendar year your distributive share of its earnings or profits ascertained at that time should be reported.

(f) All items of foreign income—that is, interest upon bonds and mortgages or deeds of trust or other similar obligations issued by individuals who are citizens or residents of foreign countries, foreign corporations, joint-stock companies, etc.

(g) Royalties from mines, oil and gas wells, patents, copyrights, franchises, or other legalized privileges.

(h) Dividends on stock or from the net earnings of domestic corporations, joint-stock companies, associations, or insurance companies, whether paid in cash, stock, or script. As the net earnings of corporations, joint-stock companies, etc., are subject to the tax imposed upon the net income of corporations, dividends from such net earnings are not subject to the normal income tax in the hands of the shareholders receiving the same, but they are to be returned for the additional tax purposes and are subject to that tax. The rates of tax to be assessed against a dividend received during the year 1917, or any subsequent year, are covered by the answer to question 53.

21. If my salary for December, 1917, is not paid to me until some day in January, 1918, or later, is its amount to be included in my 1917 return?

It is to be returned for the year during which it was actually received by you.

22. "A" is employed by a corporation at an annual salary of \$3,000. The corporation, being in financial straits, only paid "A" \$2,000 during each of the years 1915 and 1916. In 1917, "A" received his salary in full plus the balance of the salary due him for the two previous years. Must he include the full amount received in 1917 in his return for that year?

Yes. Five thousand dollars should be returned, and that amount will be subject to income tax at the rates prescribed for the year 1917.

23. If an employer agrees to pay an employee a certain stipulated salary and furnish him with room and board, are the latter items to be considered in computing income tax liability?

Yes. A fair rental value is to be placed upon the room and a fair value upon the meals furnished, and their amounts reported as income by the employee. If the services of the employee are used in the employer's business or trade the latter may claim the rent paid by him for the room, if any, and the actual cost of the meals so furnished as a deduction under the head of "Business expenses."

24. An employee receives a per diem allowance for expenses in addition to his regular salary. Is this amount to be included as income in his return?

Yes. The entire amount of allowance received should be reported as income. The difference between the expenses incurred and paid while away from home and the ordinary expenses while at home may be claimed as a deduction.

25. If I enter into a contract in 1917 which will not be completed until 1918, and which requires me to make expenditures for material and labor, provide for possible losses, etc., must I include the advance payments I receive in 1917 in my return for that year?

No. As you are unable to determine what amount of gain or profit you will derive from the contract until it is completed, the payments received thereon during 1917 need not be included in your return for that year. When the contract is completed the net gain or profit derived therefrom should be reported under "Gross income" in your return rendered for the year 1918.

26. How am I to determine what amount of gain or profit derived from a sale of property is returnable for income-tax purposes?

If you acquired the property sold prior to March 1, 1913, you should take its fair market price or value as of that date, add thereto all amounts subsequently expended in making permanent improvements, then deduct the aggregate of all claims for depreciation in value of property claimed as deductions on previous returns, and the difference between the result thus obtained and the selling price is the amount to be reported under "Gross income."

If you purchased the property on or after March 1, 1913, the difference between its cost, plus all amounts subsequently expended for permanent improvements less depreciation previously claimed, and its selling price, is to be returned.

If the property came to you on or after March 1, 1913, as an inheritance, the difference between the appraised value placed upon it at that time plus all amounts subsequently expended for permanent improvements less depreciation previously claimed, and its selling price, is to be returned.

27. How is the value as of March 1, 1913, of property sold determined?

No method of determining this value can be stated which will adequately meet all circumstances. What that value was is a question of fact to be established by any evidence which will reasonably or adequately make it appear.

28. When is a farmer to return for tax purposes the value of crops and stocks produced?

The value of grain, stock, and other products produced on a farm is not considered taxable income until reduced to cash or the equivalent of cash. Therefore, if crops and stock were produced in 1916 on a farm owned by you and they were sold in 1917, the total amount received therefor is to be included under "Gross income" in your 1917 return. Crops and stock produced in 1917, and on hand December 31 of that year, need not be considered; but the amount received therefor should be included in your return rendered for the year during which they are sold.

Farmers who keep books according to some approved method of accounting, which clearly show the net income, may prepare their returns from such books, although the method of accounting may not be strictly in accordance with the above paragraph.

29. I rent a farm on shares. When is my share of the crops and stock to be taken into consideration?

Only for the year in which sold.

30. Is a farmer required to report the value of the farm produce which is consumed by himself and family?

No; but any amount of expense incurred in producing garden truck, or other products so consumed, can not be claimed as a deduction.

31. If a farmer exchanges produce for merchandise, groceries, etc., is the value of such merchandise to be returned for tax purposes?

Yes; the price placed by the merchant upon the goods exchanged for farm produce is to be included as income in the farmer's return.

32. A tenant, under the terms of a lease, is required to pay a certain cash rental and in addition make certain improvements. Is the cost of these improvements held to be taxable income to the property owner?

Report cash rental for year in which received. The difference between cost of improvements and a reasonable allowance for the exhaustion, wear, and tear of the property arising out of its use or employment in the business or trade of lessee during the period of its life under the lease should be returned as income to the lessor for the year during which the lease terminates. (See T. D. 2442.)

33. Special payments, designated as "Bonuses," are often made to officers and employees of corporations, firms, and individuals. Are such items of income subject to tax in the hands of their recipients?

Any bonus or other item of compensation paid to an employee in addition to his regular salary or wage under a contract, expressed or implied, as additional compensation for services rendered as a reward for past endeavors, or as a stimulus to further zeal and enthusiasm in the discharge of his duties, is held to constitute taxable income which should be reported under "Gross income" in the employee's return rendered for the year during which received. Christmas remembrances, anniversary gifts, etc., from an employer to an employee do not constitute such items as are subject to the income tax.

34. Is an individual contractor who constructs a public highway, a bridge, a drainage system, etc., for the State, county, or a municipality, held to be an employee of the political subdivision for which the work is performed?

No; and therefore the income derived from his contract is not exempt from the Federal income tax.

35. What method should a merchant adopt to ascertain the amount of gain or profit which is to be reported under gross income?

Any individual who conducts a grocery, dry goods, clothing, or farm-implement business or any other business which requires that a stock be carried should take an inventory at the close of each calendar year. To the total of his inventory taken at the beginning of the year for which the return is to be rendered should be added

the cost of all goods purchased during that year, and the difference between the amount thus obtained and the total of his inventory taken at the close of the tax year, plus his total gross receipts, is the amount to be reported under "Gross income." Gross receipts should not be reported under "Gross income" and the cost of the goods purchased claimed as a deduction.

36. A piano dealer sells an instrument under a contract which states that payment therefor is to be made in monthly installments, and that the title to the instrument is to remain with the dealer until the last payment is made. How is the latter to report the amount of profit derived from this transaction?

It is held that every dollar received under such a contract represents, in part, the return of a portion of the cost of the article to the dealer and a portion of the profit to be derived from the transaction; and that the amount of profit represented by all payments during the tax year should be included in the dealer's personal return rendered for that year. For example, a piano which cost the dealer \$300 is transferred to another under a contract calling for 20 monthly payments of \$20 each, a total of \$400. Each monthly payment represents a return of capital amounting to \$15 and a profit amounting to \$5, and multiplying this latter amount by the number of payments received during the year yields the amount to be returned as income for that year. When there is a lapse or default in payment and the dealer becomes repossessed of the article, the entire amount theretofore paid and credited to principal from date of contract to date of default is income to be included in a return of income, for the reason that it is held that such an amount constitutes rental for the use of the article. In case of such default a reasonable allowance may be claimed as a deduction to cover such depreciation as may have actually occurred in the value of the repossessed article by reason of its use.

37. I have two children who live at home and are regularly employed. One is 17 years old; the other, 21 years old. Am I required to include the amount of income which accrues to each during a calendar year in my own personal return?

As the first child has not reached its majority and is still legally under your control, the amount of its income is to be included in your personal return and is subject to tax in your hands. The income of the child which has attained its majority is not to be included in your return and is only subject to tax in the hands of that child.

38. Must I include in my personal return the amount of interest I receive on Liberty Loan bonds, or is that interest exempt from tax?

All interest derived from the Liberty Loan 3½ per cent bonds issued under the act of April 24, 1917, is exempt from both the normal and additional income tax.

Interest derived from the Liberty Loan 4 per cent bonds issued under the act of September 24, 1917, is exempt from the normal income tax; but so much of the interest as is derived from such bonds, the principal of which exceeds \$5,000, is subject to the additional income tax; that is, if you hold \$8,000 of Liberty Loan 4 per cent

bonds the interest from \$5,000, or \$200, is exempt from tax, and the balance of the interest, or \$120, is subject to the additional tax.

39. I held an endowment life insurance policy upon which I paid premiums for 20 years. In 1917 that contract matured and I received its face value, or \$1,000. Must I return the entire amount received?

No. Return only the difference between the aggregate amount of premium paid and the amount received upon maturity of the contract.

40. Are commissions on renewal premiums on insurance policies subject to income tax?

Yes; such commissions received by insurance agents on account of business written are taxable income for the year in which received.

41. "A," who is the employee of a corporation, was injured and under the laws of the State in which the accident occurred he received \$5,000 on account of the injury he suffered. Must the amount thus received be reported as income?

Yes. Any amount received under an employers' liability act or workman's compensation act, or any other similar act, or as the result of a settlement or compromise for "pain and suffering," is held to be such income as is subject to the Federal income tax. This ruling is also applicable to any amount received under the terms of an accident insurance policy.

42. I purchased a 6 per cent \$100 coupon bond at its face value, plus \$1.50; that is, three months' accrued interest. Three months later I detached a coupon therefrom and collected \$3 interest. Must the entire amount of interest received be returned as income?

No. Report only so much interest as accrued after the date of your purchase. It is the seller's duty to report the balance.

43. Do the pensions and retired pay of ex-officers and men of the United States military and naval forces constitute items of taxable income?

Yes.

44. I own stock in a bank which, under a State law, is required to pay the taxes assessed against such stock. How is this matter to be handled for income-tax purposes?

The proportionate part of the entire amount of taxes so paid by the bank, which is properly chargeable against the number of shares held by you, should be reported, for additional tax purposes, in your personal return, as a dividend, and then claimed as a deduction under the heading of "Taxes."

45. In 1915 I purchased 10 shares of the preferred stock of a corporation and received 10 shares of common stock as a bonus. Has the value of this bonus a taxable status?

No; but when the stock received as a bonus is sold, the entire proceeds of the sale are income subject to normal and additional tax and should be included in your return rendered for the year during which the sale is made.

46. Are amounts placed to the credit of a shareholder in a building and loan association subject to income tax?

Any amount credited to a shareholder when the title to such credit passes to the latter at the time of the credit has a taxable status for the normal and additional income tax and should be included in the return rendered for the year during which the credit is made.

Where the amount of accumulations credited does not become available to the shareholder until the maturity of a share it need not be reported as income, but upon maturity of the share the amount received in excess of the total amount actually paid in by the shareholder is to be returned.

47. I hold stock in a corporation which in 1917 increased its capital and gave me the right to subscribe for additional stock at par. If I sell this "right," are the proceeds to be returned for tax purposes?

Yes; the entire proceeds from the sale of a "right" to purchase additional stock should be included in the return rendered for the year during which the sale is made and will be subject to both the normal and additional tax.

48. Are payments of alimony to be returned for tax purposes by their recipient?

Alimony is not held to be income to the recipient, nor is it held to be such an item as is allowable as a deduction to the person paying the same.

49. Where service is rendered for a stipulated price, wage, or salary, and paid with something other than money shall consideration be given the transaction for income-tax purposes?

Yes; the stipulated value of the service in terms of money is the value at which the thing taken in payment is to be considered, and the amount of that value is to be reported as income.

Where there is no stipulation as to the value of the service, and payment therefor is made with something other than money, the fair market value of the thing taken in payment is the amount to be returned as income.

DIVIDENDS.

50. The net earnings of a corporation in which I held stock in the year 1916 amounted to \$50,000, which amount was carried to surplus account. Its net earnings from January 1 to December 31, 1917, amounted to \$70,000, and on this latter date these last earnings were carried to surplus and a cash dividend of \$50,000 declared and soon thereafter paid. What income taxes are to be assessed against this dividend?

Section 31 (b) of the act of September 8, 1916, as amended by the war revenue act, provides, in part, as follows:

Any distribution made to the shareholders or members of a corporation, joint-stock company or association, or insurance company, in the year 1917, or subsequent tax years, shall be deemed to have been made from the most recently accumulated undivided profits or surplus, and shall constitute a part of

the annual income of the distributee for the year in which received, and shall be taxed to the distributee at the rates prescribed by law for the years in which such profits or surplus were accumulated by the corporation, joint-stock company or association, or insurance company.

Therefore, the dividend to which you refer is to be charged against the most recently accumulated earnings or surplus; that is, against the \$70,000 earned during 1917 and carried to surplus on the day the dividend was declared, and it will be subject to the additional tax at the rates prescribed by the act of September 8, 1916, and also, at the rates prescribed by the war revenue act of October 3, 1917.

51. Suppose that instead of declaring a dividend of \$50,000, this corporation had declared a dividend of \$100,000?

If such had been the case, the entire amount of net earnings carried to surplus on December 31, 1917, would have been subject to additional tax at the same rates as the dividend mentioned in your inquiry, next above, and the balance, or \$30,000, would have been held to have been paid from the 1916 earnings and would have been subject to additional tax only at the rates prescribed in the act of September 8, 1916.

52. Assuming that instead of paying this dividend in cash a corporation had capitalized the same amount of surplus as was distributed in cash, or \$100,000, and issued the new stock to its shareholders as a dividend. Would this dividend be taxable?

Yes; just the same as though it had been paid in cash.

53. A corporation began business January 1, 1912. Its net earnings were as follows:

Jan. 1, 1912, to Mar. 1, 1913	\$10,765
Mar. 1, 1913, to Jan. 1, 1914	5,220
For the year 1914	7,347
For the year 1915	11,000
For the year 1916	15,300
Jan. 1 to Dec. 31, 1917	27,400

Amount of surplus on hand Dec. 31, 1917 77,032

The corporation never paid a dividend until December 31, 1917, on which date it declared and paid a dividend of \$77,032. How will this dividend be taxed?

That portion of the dividend which represents the distribution of 1917 earnings, or \$27,400, will be subject to the additional tax at the rates prescribed in the act of September 8, 1916, and also in the war-revenue act of October 3, 1917; and that portion which represents 1916 earnings, or \$15,300, at the rates prescribed in the act of September 8, 1916, only; that portion which represents earnings which accrued from March 1, 1913, to January 1, 1916, at the rates of additional tax prescribed in the act of October 3, 1913. The remainder, or \$10,765, is exempt from tax under that portion of section 31 (b) which states that—

But nothing herein shall be construed as taxing any earnings or profits accrued prior to March 1, 1913, but such earnings or profits may be distributed in stock dividends or otherwise, exempt from the tax, after the distribution of earnings and profits accrued since March 1, 1913, has been made.

54. Will it be the taxpayer's duty to advise himself what proportion of a dividend received by him is properly chargeable, under section 31(b), act of September 8, 1916, as amended, to the corporate earnings or profits for each tax year?

Yes.

55. Assuming that a corporation had assets which had greatly appreciated in value and had carried the amount of that appreciation to its surplus account and capitalized same, or that it capitalized its good will, and then issued the new stock to its shareholders as a dividend, would this dividend be subject to tax?

Only such dividends as represent a distribution of earnings or profits accrued since March 1, 1913, are subject to the additional tax when received by the shareholders. As appreciation estimated to have occurred in the value of the assets held and good will do not represent actual earnings, profits, or income, a dividend based upon a capitalization of any such items is not subject to tax when received by the shareholders. It should be understood, however, that when any of the stock received in payment of such a dividend is sold, the entire proceeds derived from the same are to be returned under "Gross income" in the shareholders' return rendered for the year during which the sale is made, and will be subject to both the normal and additional income taxes.

56. A corporation on July 1, 1917, declared a dividend and in that declaration specifically stated that it would be paid out of earnings or profits which had accumulated and were on hand prior to March 1, 1913. Is this dividend to be returned for income-tax purposes?

No. Section 31 (b), act of September 8, 1916, as amended, provides that none of its provisions shall apply to any distribution made prior to August 6, 1917, out of earnings or profits accrued prior to March 1, 1913.

57. Are dividends on paid-up life insurance policies subject to income tax?

Dividends on paid-up life insurance policies are subject to the additional tax for the year in which received.

GENERAL DEDUCTIONS.

58. In rendering a personal return what items may I claim as deductions?

See section 5 of the act of September 8, 1916, as amended by the war-revenue act.

59. What constitutes an item allowable as a deduction under the head "Business expenses"?

All amounts of expenses actually paid during the tax year in the conduct of a business, trade, or profession.

This includes all amounts actually paid by a farmer for labor in preparing his land for a crop and the cultivation, harvesting, and marketing of the crop; the cost of the seed and fertilizer used; the

amounts expended for labor used in caring for live stock and the cost of the feed; the cost of stock purchased for the purpose of resale. (It should be understood, however, that if such cost is claimed as a deduction, the entire proceeds received upon a sale of the stock is to be returned as income.) The amounts actually paid in making repairs to farm buildings, but not the dwelling house; repairs to fences, farm machinery, etc.; the cost of materials for immediate use and farm tools which are used up in the course of a year or two, such as binding twine, stock powders, pitchforks, spades, etc.; and the amount of rent paid for a farm may also be claimed. The amounts paid for live stock which is to be used for breeding purposes are held to represent investment of capital and are not allowable as deductions.

A merchant may claim as deductions the amounts paid for advertising, hire of clerks, and other employees; the cost of the light, fuel, water, telephones, etc., used in or at his place of business; drayage and freight bills; the cost of operating delivery wagons, trucks, and the repairs to same.

The cost of goods purchased for resale is not to be claimed as a deduction, as a credit for that cost may be obtained by following the method of computation outlined in the answer to the thirty-fifth question.

A physician may claim as deductions the cost of medicines and medical supplies used by him in the practice of his profession, expenses paid in the operation and repair of an automobile used in making professional calls, dues to medical societies and subscriptions to medical journals, the expenses of attending medical conventions, the rent paid for office rooms and the hire of office assistants, the cost of the fuel, light, water, telephone, etc., used in such office rooms. Amounts expended for books, medical supplies, and surgical instruments of a permanent character are not allowable as deductions.

This in a general way outlines the ordinary and usual expenses incurred by a farmer, a merchant, or a professional man, which may be claimed as deductions, and the principles underlying these allowances are equally applicable in the case of anyone engaged in a business, trade, or profession. In short, all expenses connected directly and solely with the conduct of an income-producing business, trade, profession, or vocation are allowable.

Items of personal expense or items connected in any way with the support, maintenance, and well-being of a family are not allowed; neither are the amounts paid for tools, implements, vehicles, machinery, or surgical instruments which are more or less permanent in character, nor the cost of medical, law, or other professional books, nor amounts expended in making permanent improvements or betterments of any kind whatsoever, allowable as deductions. These latter items are held to be investments of capital upon which depreciation may be claimed.

60. I employ a man to assist me in operating my farm and a woman to assist about the house. Is the compensation paid to each allowable as a deduction?

Unquestionably, as to the amount paid to the male employee, but a line must be drawn as to the amount paid to the female employee. If her time is employed entirely in taking care of milk and cream

produced for sale, in the production of butter, cheese, etc., the care of milk cans and churns, or, if a separate table is maintained for laborers employed on the farm and her services are used entirely in the preparation and serving of the meals furnished the laborers and in caring for their rooms, the compensation paid her constitutes an allowable deduction. If, however, she is employed to assist in caring for the farmer's own household, no deduction can be claimed.

61. If I employ a minor son or daughter to assist me in my business or trade and I pay a salary or wage for such assistance, may I claim the amount as a deduction?

No. If, however, the son or daughter has attained his or her majority, the amount of compensation paid for his or her services may be so claimed.

62. Can a taxpayer claim a deduction for his own remuneration?

Wages or salary drawn by a taxpayer from his own business are more in the nature of a charge out of profits than a charge against profits. If such could be deducted they would merely be added to his income, the effect of which would be to take money out of one pocket and put it in another. Therefore no deduction can be claimed for income-tax purposes.

(NOTE.—Any such wage or salary may be entered on Form 1040, revised January, 1918, for excess-profits tax purposes.)

63. Can the amounts expended by a business man in entertaining out-of-town customers, or prospective customers, be claimed as deductions?

Yes. If the sole purpose of the business man in making such expenditures is to cultivate the good will of his customers and secure an increase in trade they may be so claimed.

64. Can a salesman working on a commission basis claim as deductions the amounts expended from his own funds for railroad fare, excess baggage, taxicab or street car fare, show rooms, assistants, advertising, etc.?

Yes. If he is not reimbursed for such expenditures by his firm, he should report under "Gross income" the total amount of commissions received, and he may then claim such expenses as were actually incurred and paid in the earning of those commissions.

65. "A," who is employed in a city, has his home in a suburb. He pays car fare between his home and place of employment and takes his noon lunch in the city. Can the amounts expended for car fare and lunch be claimed as a business expense?

No, as such amounts are held to be items of personal expense.

66. Are the items of expense incurred and paid by me during the calendar year in connection with a farm which I lease to another on a cash or crop-share rental basis, such as repairs to fences, farm buildings, etc., allowable as deductions?

Yes.

67. Can the amount of life insurance premiums and premiums paid for insurance on my residence be claimed as deductions?

No, as these are held to be items of personal expense. If, however, you pay premiums on insurance policies covering farm buildings, other than your dwelling house, or on any property used for business purposes, these premiums are allowable as deductions.

68. An individual or a partnership, to protect his or its business interests, insures the life of one or more employees or members. Can the premiums paid for such insurance be considered a business expense and claimed as a deduction?

No. However, should the policy become due and payable, the individual or partnership should deduct the aggregate amount of premiums paid from the proceeds of the policy and return the balance as income.

69. A tenant, under the terms of a lease, is obligated to pay a certain cash rental and all taxes assessed against the property and keep it insured. May he claim as a business expense the aggregate amount of rental, taxes, and insurance premiums paid?

Yes; if the property is used by the tenant for business or trade purposes and not as a home, the aggregate amount may be claimed as a deduction for the year during which actually paid.

70. I own stock in a corporation which, in 1917, assessed each of its stockholders \$50 on each share held. Can the amount paid by me be claimed as a deduction?

No. Assessments made by a corporation on its capital stock are regarded as further investments of capital and do not constitute an allowable deduction in the return of the individual.

71. You say that assessments made against corporation stockholders can not be claimed as deductions. In California and other States fruit growers, ranchers, and farmers are shareholders in irrigation companies which are mutual in character, and they are often assessed, in proportion to their holdings of stock, for sufficient amounts to make repairs to the irrigation system, cleaning out of pipes, laterals, etc. Can such assessments not be claimed as deductions under the head of business expenses?

Yes. Where the purpose of the assessment is merely to raise funds to keep the irrigation system in usable condition and not to make extensions or betterments, the amount assessed against each shareholder may be so claimed.

72. If a physician, or other professional or business man, rents a home and uses a portion of same for professional or business purposes, may any portion of the rent paid for that home be claimed as a business expense?

Yes. The proportion of the rent paid which is properly chargeable to the number of rooms so used may be claimed as a deduction.

73. In 1917 I purchased a property, the title to which proved defective, and in order to straighten the matter out

I employed an attorney and resorted to court proceedings. Can I claim a deduction to cover the fee paid the attorney and the court cost?

No. Such items are held to be a part of the cost of the property and therefore not allowable as deductions.

74. If I employ an architect to prepare plans for a building to be used for business purposes, may the fee paid to the architect be claimed as a business expense?

No. Amounts expended for an architect's services are held to be a part of the cost of the building and not such items as may be claimed as deductions.

75. You have heretofore stated that only such items of income as have actually been paid to me during the tax year are to be reported, and only such items of expense as I have actually paid during that year claimed as deductions. Can not a business or professional man who keeps a set of books and enters thereon as income the cost of goods sold on credit, or fees earned but not paid, and charges to expense account items which have not been paid by him, report his net income for the year as shown by his books when they are balanced at the end of the calendar year?

Section 8 (g) of the act of September 8, 1916, states that:

An individual keeping accounts upon any basis other than that of actual receipts and disbursements, unless such other basis does not clearly reflect his income, may, subject to regulations made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, make his return upon the basis upon which his accounts are kept, in which case the tax shall be computed upon his income as so returned.

76. What is meant by the statement in the law that all interest paid within the year upon the indebtedness of a taxpayer, "except on indebtedness incurred for the purchase of obligations or securities the interest upon which is exempt from taxation as income under this title" may be claimed as a deduction?

If a taxpayer, desiring to do his patriotic duty, borrowed money to invest in Liberty Loan 3½ per cent bonds, or if he borrowed money to invest in the bonds of a State, county, or municipality, or any security issued under the provisions of the Federal farm-loan act of July 17, 1916, or any other securities the interest from which is not subject to income tax as explained in the answer to the eighteenth question, the interest paid by the taxpayer upon the money so borrowed can not be claimed as a deduction. All other interest paid within the year may be so claimed.

77. If I have a certain sum of money invested in a farm or business, may I claim as a deduction, under the head of interest, an estimated amount of interest which might have accrued to me had that money been deposited in a bank or invested in interest-paying securities?

No.

78. What forms of taxes can not be claimed as deductions?

Taxes assessed against an individual on property owned by him to pay for the paving of a street contiguous to his property, the construction of a sewer, sidewalk, etc., the sprinkling or oiling of a street in front of his home, the construction of levees to protect, or ditches to drain, property owned by him, can not be claimed as deductions. In short, such taxes as are not general in nature and are levied on account of some work or privilege the benefit of which accrues to a limited number of property owners, of which the taxpayer is one, are not allowable deductions.

79. If I pay any amount of personal income tax for the year 1917, may I claim that amount as a deduction for the year 1918?

No. The income-tax law states that income taxes are not allowable as deductions. Under this provision income tax paid in 1917 on income received in 1916 or any previous year can not be deducted.

80. In 1916 I bought certain stocks and bonds for \$5,000, and in 1917 the value of these securities dropped to \$4,000. May I claim the difference of \$1,000 as a loss in computing my income tax liability?

No. Under the provisions of the fourth and fifth paragraphs of section 5 of the act of September 8, 1916, only such losses as have actually been sustained during the year can be claimed; that is, the loss must have resulted from a completed and closed transaction. In your case you still own the securities. They may go up in value during 1918, and until they are sold or otherwise disposed of you are unable to determine whether you will suffer a loss or derive a gain from your investment. In other words, no account is to be taken, for income-tax purposes, of fluctuations in the market value or arbitrary changes in the book value of securities or other property.

(NOTE.—*This ruling has been modified in the case of securities owned by brokers or others regularly engaged in buying and selling securities. See T. D. 2609.*)

81. John Doe, while driving an automobile, ran down and injured another person. He either paid over a certain sum, or paid a judgment rendered against him, in settlement of the injury done. Can he claim the amount so paid as a loss?

No. It was not a loss which was incurred in the conduct of his business or trade, or which resulted from a transaction entered into for profit.

82. How am I to determine what amount of loss, resulting from a sale of property, is allowable as a deduction?

The same method of computation should be followed as is outlined in the answer to the twenty-sixth question. If the result is a loss instead of a gain, that loss may be claimed as a deduction, if it was connected with your regular business or trade, or during the same year you derived gains from other transactions entered into for profit but not connected with your regular business or trade in excess of the amount of your loss.

83. What is the difference between the losses allowable as deductions under the provisions of the fourth paragraph of section 5 of the act of September 8, 1916, and those allowable under the provisions of the fifth paragraph, same section?

Losses, for income-tax purposes, are divided into two classes: (a) Those incurred in business or trade and (b) those resulting from transactions entered into for profit but not connected with the taxpayer's regular business or trade.

For example: "A" is regularly engaged in buying improved or unimproved real property with the intention of selling the same as early as possible at a profit. In one or more instances the property purchased may be sold at a loss, and that loss may be claimed by him as a deduction under the provisions of the fourth paragraph for the reason that he is regularly engaged in buying and selling real estate. Now, "B" buys a home or, perhaps, he buys two or three pieces of property in the course of several years. He is not regularly engaged in buying and selling real estate and, therefore any loss he may suffer through such a transaction can only be claimed by him as a deduction under the provisions of the fifth paragraph of section 5; that is, only so much of his losses as does not exceed the amount of gain or profit derived during the same year from other transactions entered into for profit, but not connected with his regular business or trade, can be claimed. If "B," in 1917, sold one property at a loss of \$2,000 and another property at a gain of \$1,000, he must report the gain of \$1,000 under "Gross income," and can claim only that amount as a loss.

This same rule is applicable in the case of losses arising from purchases and sales of stocks and bonds. If the taxpayer is regularly engaged in buying and selling such securities, any loss he may suffer may be claimed under the provisions of the fourth paragraph. If he is not so engaged it may only be claimed under the provisions of the fifth paragraph.

84. In computing amount of profit or loss resulting from purchase and sale of securities which is to be returned or claimed as a deduction under the provisions of the fifth paragraph of section 5 of the act of September 8, 1916, is interest or dividends received on the securities during the tax year to be taken into consideration?

No. Interest and dividends are held to be items of current income, returnable as such, and they are not to be considered when computing the amount of profit or loss which results from a purchase and sale.

85. A professional man or a merchant owns and operates a "fancy stock farm." The expenses of operation exceed the gross receipts. Can the difference be claimed as a deduction under the head of "losses"?

No. It is held that where a farm is operated for purposes of recreation or pleasure, and not primarily for profit, but as a hobby, that farm is not to be classed as a commercial enterprise, that it does not form a part of its owner's business or trade and until it is placed upon a profit-paying basis the gross receipts are not to be reported

under "Gross income" and the expenses are not to be claimed as a deduction. This ruling, of course, precludes the claiming of the difference between the two amounts as a loss.

86. Suppose I buy a farm which is much run down with the intention of making it a profit-paying property. To do this I am obliged to expend large amounts for labor in clearing away brush, for fertilizer, lime, etc., and for several years the expenses will greatly exceed the gross receipts. Can the excess of expenses over receipts for each year be claimed as a loss?

No. The amounts so expended are held to be investments of capital, the result of which is an improvement or betterment, and, until the farm becomes a paying proposition, no portion of the gross receipts is to be reported as income and no portion of the expenses can be claimed as a deduction, either under the head of "Business expenses" or under the head of "Losses."

This same ruling is equally applicable in the case of a young orchard. If, after the farm or orchard has been placed upon a profit-paying basis a bad year follows and a loss is sustained during that year, that loss may be claimed as a deduction.

87. I own a tract of timber which was partially destroyed by fire during 1917. Is this loss allowable as a deduction?

The actual amount of capital invested in standing timber, if acquired on or after March 1, 1913, and later destroyed by fire, may be claimed as a deduction if not reimbursed by insurance or otherwise. If the timber was acquired prior to March 1, 1913, its fair market price or value as of that date may be claimed. To illustrate the method to be employed in computing the amount of loss allowable as a deduction, the following is submitted: A tract of land was acquired prior to March 1, 1913, and the estimated amount of timber standing on that tract on that date was 1,000,000 feet, board measure, the fair market price or value per 1,000 feet established by the current prices prevailing in the locality of the tract in question as of March 1, 1913, being \$4. During the year 1917, 400,000 feet of this timber was destroyed by fire. In this case \$1,600 is the amount which may be claimed as a deduction.

88. If cattle or other live stock are produced on a farm which I own or operate, and are then lost through disease, may I claim their value at the time of death as an allowable deduction?

No. If the stock which died was purchased and the cost has not been claimed in a previous return as a deduction, that cost may be claimed as a deduction in your return rendered for the year during which the loss occurred.

89. If a crop which is ready to be harvested, but has not been gathered, or a crop which has been harvested, but has not been sold, is destroyed by storm, flood, or fire, can the value of that crop be claimed as a deduction?

No. It is understood, of course, that the actual cost of producing or harvesting a crop which has been so destroyed may be claimed as a deduction under the head of Business expense.

90. What conditions are necessary in order that a debt may be claimed as a deduction?

It must be (a) a *bona fide* debt, (b) definitely ascertained to be worthless and uncollectible during the year for which the deduction is claimed, and (c) if books are kept it must be charged off within the year for which the deduction is claimed and no longer considered an asset or carried as such on the books.

91. In 1917 a corporation or a firm to which I had loaned money became bankrupt. Can this debt be considered absolutely worthless and claimed as a deduction for 1917?

No, unless the affairs of the debtor have been finally adjusted, its assets sold for the benefit of, or distributed to, its creditors, and its receiver in bankruptcy discharged. If all this has occurred during the year 1917, so much of the debt as remains unpaid after the receiver is discharged may be claimed as a deduction for the year 1917.

92. Is it absolutely necessary that the debtor corporation or firm mentioned in the ninety-first inquiry be declared a bankrupt and its receiver discharged before I can claim a deduction on account of the debt in question?

No. If the debtor corporation has no assets whatsoever, and it is definitely known that nothing whatsoever can be collected from debtor itself or any person connected with it, a creditor need not go to the expense of instituting bankruptcy proceedings in order to establish his right to claim the worthless debt as a deduction.

93. "A" indorses a note for "B." The latter has since departed for parts unknown and the note became due in 1917, and "A" was required to make good his indorsement. Can he now claim as a deduction the amount paid by him to the creditor?

Yes. If he has no knowledge of "B's" present whereabouts and has good reason to believe that he is possessed of no assets and that it is his intention never to make payment of it, the amount so paid by "A" may be considered a bad debt due him from "B."

94. If, on account of friendship or relationship I advanced a certain sum to assist a needy friend or relative, and at the time such advance was made I had little or no reason to expect that the amount so advanced would every be returned, may I now claim a deduction to cover such advance?

No. Such an advance, partaking, as it does, somewhat of the nature of a philanthropic donation or a good-will offering, is not held to constitute a *bona fide* debt.

95. In rendering my 1914 return I claimed a deduction to cover a debt I then believed to be absolutely worthless. In 1917 the debtor has discharged part of his obligations. How should I treat this payment for income-tax purposes?

Consider it as an item of income and include this amount under "Gross income" in your 1917 return.

96. A professional man earned a fee in 1916. As he keeps no books, he reports his income for tax purposes on an actual

receipt basis. As this fee has never been reported as income, can it be claimed as a deduction if collection can not be made?

No; never having been returned as income, it can not be claimed as a deduction.

97. "A" loaned "B" \$10,000, the debt being secured by a mortgage on a farm. Foreclosure proceedings were resorted to and "A," to protect his interests, purchased the farm for \$8,000. Can the difference between these two amounts be claimed as a deduction?

Where, under foreclosure, the mortgagee buys in the mortgaged property, the difference between the purchase price and the debt will not be allowed as a deduction. The property which was security for the debt being in the possession and ownership of the mortgagee, is, for purposes of the income tax, held to be sufficient to justify the disallowance of a claim for bad debts. Where the purchaser of the property upon foreclosure is another than the mortgagee, the latter may claim the difference between the amount of the debt and the net amount paid to the mortgagee as a bad debt.

98. "A" claimed that "B" owed him \$1,000. "B" contested the claim, but agreed to pay \$500 in compromise. May "A" claim as a deduction the balance which he contended was due him?

No. Where an indebtedness is claimed, contested, and a settlement is had by way of compromise, whereby an amount less than the debt claimed is accepted in full payment, the difference between the amount claimed and the amount paid can not be claimed as a deduction.

DEPRECIATION.

99. At what rates may depreciation be claimed and under what conditions?

As the rate at which depreciation may be claimed is dependent, in a greater or less extent, upon local conditions, the use to which the property is put, and its probable lifetime under normal business conditions, no specific rates at which it may be claimed have ever been established. The law states that a "reasonable allowance" may be claimed and it is for the taxpayer to determine what constitutes a "reasonable allowance." To compute the amount which may be claimed, a taxpayer should determine the probable lifetime of the property, then divide its cost to him by the number of years it will be usable in a business in which employed, and the result thus obtained will represent the amount which may be claimed each year as a deduction, e. g., a frame building, the probable lifetime of which, without repair or replacement, is 25 years, cost \$5,000. Divide \$5,000 by 25 and claim \$200 each year as depreciation.

While each taxpayer must determine the probable lifetime of his property without regard to the following figures, it has been estimated that the average usable lifetime of a frame building is 25 years; a brick building, 35 years; a stone building or a steel and concrete building, 50 to 100 years. The estimated lifetime of ordinary machinery is 10 years, that of automobiles used for business or farm purposes and farm tractors, 4 to 5 years.

If a taxpayer wishes to claim the full amount of depreciation estimated to have occurred in the value of a building or other property used for business or trade purposes, he may do so, but this precludes his claiming a deduction to cover any amount expended during the same year in making repairs. If he wishes to claim a deduction on account of repairs, their cost must be deducted from the full amount of depreciation, and the balance may then be claimed as a deduction under the heading of "Depreciation"; that is, if the taxpayer expends \$100 in making repairs to a building which will depreciate in value \$200 during the calendar year he may claim \$100 as a business expense and \$100 as depreciation, or he may claim \$200 as depreciation and nothing for repairs. In short, the aggregate deductions claimed on account of repairs and depreciation must not exceed the full amount of depreciation estimated to have occurred.

(NOTE.—The repairs referred to in this paragraph are such as are general in character, represent replacements, etc. Small items, such as replacement of broken window panes, papering, minor repairs, etc., are allowable, even though full amount of depreciation has been claimed.)

In claiming depreciation the following fundamental principles must be taken into consideration:

(a) Only such depreciation as results from exhaustion, wear, and tear of property, arising out of its use or employment in business or trade, can be claimed. Depreciation in the value of a home or any article of property, such as automobiles, used for personal pleasure or convenience, can not be claimed; the property must be used for the purpose of producing income.

(b) Depreciation other than that arising from wear and tear, such as a lessening of values due to changes in the social or business conditions in the neighborhood in which a property is located, changes of street grade, or fluctuations in market values, etc., can not be claimed.

(c) Depreciation in the value of land, whether improved or unimproved, due to ordinary erosion, exhaustion, or any other cause can not be claimed.

(d) Where the value of a piece of machinery or any other asset is lessened by reason of the production of an improved machine or article, that depreciation can not be claimed, as it does not result from exhaustion, wear, and tear.

(e) Where, in the course of years, the owner of property has claimed its full cost as depreciation in his income-tax returns, no further claim will be allowed.

(f) The value to be cared for by depreciation is the actual amount invested in the property and not the value which may be arbitrarily or otherwise fixed.

100. A store or other building has outlived its usefulness; the owner tears it down to make room for a building of an improved type. Can the value of the old building at the time of destruction be claimed as depreciation or as a loss?

No. Losses due to the voluntary removal or destruction of buildings, etc., incident to improvements are either a proper charge to the cost of new additions or to depreciation already provided, as the facts may indicate, but in no case is it a proper deduction in determining

net income. If, however, a building is destroyed prior to the close of its lifetime, as estimated for the purpose of making depreciation charges, that portion of its cost which is properly chargeable to the period it might have remained in a usable condition may be considered a part of the cost of the new building when computing the amount of the gain or profit derived from a sale of the latter.

101. If the authorities of a municipality declare that a building is unsanitary or unsafe for the purposes to which put and its destruction is ordered, can the losses sustained by the owner be claimed as a deduction?

No; neither as a loss nor as depreciation.

102. I bought a patent for \$5,000 which, under the patent laws of the United States, had five years yet to run. As the value of this patent depreciates each year on account of the exhaustion of the patent period, may a deduction be claimed?

Yes. The cost of the patent divided by the number of years it has yet to run, yields an amount which may be claimed each year as depreciation. In your case this amount is \$1,000.

103. I understand that depreciation in the value of articles for personal use can not be claimed as a deduction. However, as actors and actresses are often required to furnish their own wardrobes, does not the depreciation in the value of such property constitute an allowable deduction?

If costumes purchased by members of the theatrical profession are used exclusively for the production of a play and are not adapted for occasional personal use, and are not so used, a deduction may be claimed on account of such depreciation in their value as occurs during the year on account of wear and tear arising from their use in the production of the play or from their becoming obsolete at the close of the production.

DEPLETION.

104. Under what conditions and at what rates may depletion due to the removal of a natural product from oil or gas wells, mines, quarries, etc., be claimed?

Paragraph 8 of section 5 of the act of September 8, 1916, as amended by the war-revenue act of October 3, 1917, states how the amount of depletion allowable as a deduction is to be ascertained, but as so many factors are to be considered in computing depletion, an answer which will be applicable in all cases where depletion occurs can not here be given. Such factors are covered in considerable detail by Treasury Decisions 2446 and 2447 and the Regulations, copies of which may be obtained from the collector of internal revenue for your district, and where these Decisions and Regulations do not afford all the information necessary in your particular case a detailed statement covering all the facts and figures in your case should be forwarded to the collector, with a request for a ruling.

CONTRIBUTIONS AND GIFTS TO RELIGIOUS, CHARITABLE, AND SCIENTIFIC ORGANIZATIONS, ETC.

105. With reference to the ninth paragraph of section 5 of the act of September 8, 1916, as amended, how am I to

determine to what extent contributions or gifts made to corporations or associations, organized exclusively for religious, charitable, scientific or educational purposes, societies for the prevention of cruelty to children or animals, may be claimed as a deduction?

You should first ascertain what your taxable net income would be were you not entitled to a deduction on account of contributions or gifts made to such corporations, associations, or societies, and then if the aggregate of your contributions and gifts made during the year to such organizations does not exceed 15 per cent of your taxable net income so computed their aggregate amount may be entered in the space provided therefor under "General deductions" on a personal return form. If such aggregate amount exceeds 15 per cent of your taxable net income so computed, the excess can not be claimed.

For example: Your total taxable net income amounts to \$20,000. During the year you have contributed to the National Red Cross \$1,000, to the Young Men's Christian Association \$1,000, toward the construction of a new church \$1,000, and to the Associated Charities of your home city \$500, a total of \$3,500. Fifteen per cent of your total net income amounts to \$3,000, therefore this latter amount may be claimed as a deduction and the balance of your contributions and gifts may not be claimed.

In claiming a deduction on account of such contributions or gifts there should be shown on the return of income (a) the name and address of each organization to which a contribution or gift was made and (b) the date and amount of each such contribution or gift.

Where the contribution or gift was other than money the basis for calculation of its value shall be the fair market value of the property given at the time of contribution or gift.

106. During 1917 I contributed \$100 toward the support of a needy family. May this contribution be claimed as a deduction?

Contributions or gifts made to individuals do not constitute allowable deductions.

PARTNERSHIPS.

107. Are partnerships subject, as such, to the Federal income tax and required to render annual income-tax returns?

No. Section 8 (e) of the act of September 8, 1916, as amended by section 1204 of the war-revenue act provides that:

Persons carrying on business in partnership shall be liable for income tax only in their individual capacity, and the share of the profits to which a partner would be entitled if the same were divided, whether divided or otherwise, shall be returned for taxation and the tax paid under the provisions of this title.

This section further states how the distributive share of partnership earnings or profits, which is taxable in the hands of the individual member, is to be ascertained.

While annual returns are not required of a partnership for income-tax purposes, the Commissioner of Internal Revenue or any district collector is authorized to request at any time that a true and accurate return of a partnership's earnings, profits, and income shall be made, excepting only the income which is exempt from taxation under the

provisions of section 4 of the act of September 8, 1916, as amended, which income is specified in the answer to the eighteenth question. The required return shall set forth all the items of "GROSS INCOME" and general deductions, and the names and addresses of the individuals who would be entitled to the net earnings, profits, or income, if distributed, and the distributive share of each.

It is held that the income from a partnership accrues to the individual partner at the time his distributive interest is determined and reducible to possession. In the returns of income made by individuals for the calendar year, therefore, there should be included such income accruing from the business of the partnership for its business or fiscal year as may have been definitely ascertained by means of a book balance, whether distributed or not. In other words, members of partnerships are required to make returns of income like other individuals for the calendar year, and should include in their returns the net proceeds of their interests in partnership profits ascertained at the end of the business year falling within the calendar year for which the individual return is being rendered.

All domestic partnerships having a net income of \$6,000 or more for 1917, or any subsequent year, are required to render excess-profits tax returns.

108. A partnership was organized in July, 1913, and in 1917 one of its individual members sold his interest therein and retired. How is he to determine the amount of gain or profit derived from the transaction which is returnable for income-tax purposes?

From the selling price should be deducted the amount of capital he has actually invested in the partnership's assets and the difference reported under "Gross income."

109. What forms of income, if any, are subject to withholding of tax at the source when paid to a partnership?

As the income received by a partnership is not subject to income tax in the hands of the partnership, no tax is to be withheld from income paid to a partnership, either domestic or foreign.

FIDUCIARIES.

110. Who are classed as fiduciaries?

The term "fiduciary" is one that applies to all persons or corporations that occupy positions of peculiar confidence toward others, such as trustees, executors, or administrators, and a fiduciary for income-tax purposes is any person or corporation that holds in trust an estate of another person or persons.

There may be fiduciary relationship between an agent and the principal, but the word "agent" does not denote a "fiduciary" within the meaning of the income-tax law.

A fiduciary relationship for the purposes of the income tax can not be created by a power of attorney. An agent having entire charge of property, without authority to effect and execute leases with tenants entirely on his own responsibility, and without consulting principal, paying taxes and expenses and all other charges in connection with the property out of funds in his hands from collections of rents,

merely turning over the net profits from the property periodically to his principal by virtue of authority conferred upon him by power of attorney, is not a "fiduciary" within the meaning of the income-tax law. In all cases where no legal trust has been created in the estate controlled by the agent and attorney the liability under the law rests with the principal.

A deed of trust must be absolute so far as the conveyance of title is concerned, and irrevocable by the donor. Otherwise the income from the property in question will be held for income-tax purposes to accrue to the donor and must be accounted for by him.

111. Is the duly appointed guardian of a minor, or the conservator of an estate of an incompetent person, required to render personal returns for and in behalf of his ward?

Yes, under the same conditions as would the ward if competent to act for himself, and in so doing the personal exemption to which the ward is entitled may be claimed.

112. Is the duly appointed administrator of an estate of a deceased person, who died during the tax year, required to render a personal return for and in behalf of the deceased, and also his estate?

If the net income of the deceased from January 1 of the year during which he died to the date of his death equaled or exceeded \$1,000, in the case of an unmarried person, or \$2,000 in the case of a married person, the administrator should file a personal return, executed on Form 1040, for and in behalf of the deceased, and a return executed on the same form will also be required of him for and in behalf of the estate, if it remains in process of administration and its net income from the date of the decedent's death to December 31 equals or exceeds \$1,000.

The administrator will be required to pay and will be held liable for any amount of tax which may be assessed against any such return rendered by him.

113. Is the trustee having charge of a trust estate, the net income of which is regularly distributed among the beneficiaries, required to render a return?

Yes; if any one of the beneficiaries is unmarried and his or her distributive interest in the net income of the trust equals or exceeds \$1,000. Yes, also, if all the beneficiaries are married and the distributive interest of any one equals or exceeds \$2,000. Otherwise, no.

It should be understood, however, that this answer is applicable only in a case where all the beneficiaries are citizens or residents of the United States. If any portion of the net income of an estate or trust is distributed to a nonresident alien beneficiary a return is required, and the normal income tax of 2 per cent is to be deducted and withheld from so much of the amount remitted to such beneficiaries as was not derived from dividends or from the net earnings of corporations, joint-stock companies, etc., subject to a like tax, or has been subject to the withholding of the normal tax at the source.

114. In a case where an estate is in process of administration and the fiduciary renders returns covering the income and deductions of the estate, and pays the amount of normal

and additional tax assessed thereon, will the net income be subject to tax in the hands of the beneficiaries when received by them?

No. The estate during administration is held to be a taxable entity; the fiduciary having it in charge is required to render returns and pay the taxes assessed thereon, and, these taxes having once been paid, such income is exempt from tax in the hands of the beneficiaries who receive the same.

The income of estates in process of administration or in trust for accumulation of income is taxed as for an unmarried person.

115. Is any other than a return of income required of a fiduciary?

Yes. Fiduciaries come within the provisions of section 28 of the act of September 8, 1916, as amended by section 1211 of the war-revenue act, and will be required to render to the Commissioner of Internal Revenue a return of information, if, during the tax year, any income has been paid to an individual, partnership, corporation, joint-stock company, etc., equal to, or in excess of, \$800.

116. Is a fiduciary required to deduct and withhold at the source any amount of normal income tax?

Yes. If any distribution or payment of fixed or determinable gain, profit, or income is made to a nonresident alien individual 2 per cent is to be deducted and withheld.

117. Is an ancillary administrator required to render income-tax returns covering income received by him?

An ancillary administrator is held to be merely the agent of the domiciliary administrator. The former should transmit to the latter all information as to income received by him in order that the domiciliary administrator may make a return covering the entire income of the estate.

118. Have the beneficiaries of an estate or trust a right to inspect income-tax returns rendered by a fiduciary covering the income of the estate or trust in which they are interested?

An executor, administrator, or trustee acts for his principal, and not for the beneficiaries of the estate of his principal; therefore, beneficiaries are not entitled, as such, to an inspection of returns of income filed by such a fiduciary.

119. Who is liable for payment of the tax assessed against the net income of an estate or trust?

Liability for payment of the income tax attaches to the person of the fiduciary up to and including the date of his discharge.

120. I act as trustee of a trust estate. A part of the net income which accrues to the trust is retained and becomes a part of the corpus of the trust estate. Am I required to render a return for and in behalf of the trust other than the fiduciary return required of me?

If the trust itself is named as a beneficiary and the amount of net income which accrues to it as a beneficiary equals or exceeds \$1,000, a return executed on Form 1040, for and in behalf of the trust, in addition to the return executed on Form 1041, is required.

121. May an executor or administrator render his fiduciary returns prior to the close of the calendar year in a case where the estate is finally distributed and he is discharged from and relieved of his trust during that year?

An administrator or executor may, immediately after his discharge upon final accounting, file with the proper collector of internal revenue a return covering the income and deductions of the estate for the period January 1, to the date of his discharge. To such a return there should be attached a certificate, under seal, setting forth the fact of the final accounting and discharge of the administrator or executor, and the tax assessed against that return may be paid immediately after receipt from the collector of a notice of the amount assessed and a demand therefor.

122. An individual, now deceased, held a life insurance policy in which his estate was named as the beneficiary. Are the proceeds of this policy subject to income tax?

The proceeds of life insurance policies payable to the estate of the decedent, when received by his executor or administrator, are, in the amount by which such proceeds exceed the premium or premiums paid by the decedent, income to the estate and are to be accounted for by the executor or administrator.

123. Where, in the case of more than one trust, the creator in each instance is the same person, and the trustee in each instance is the same, how will the trustee account for the income of the several trusts?

The trustee should make a single return on Form 1041 for all the trusts in his hands, notwithstanding the fact that they arise from different instruments. When a trustee holds trusts created by different persons for the benefit of the same beneficiary he should make return for each trust separately on Form 1041. This ruling is based on the identity of the creator and the identity of the trustee of the various trusts and not upon the identity of the beneficiary.

124. May the expenses of administration of an estate be claimed by the fiduciary as deductions in computing the estate's liability for income tax?

Expenses of administration, such as court costs, attorneys' fees, executor's commissions, etc., are chargeable against the corpus of the estate and are not allowable as deductions to the estate or the beneficiaries thereof.

125. May a fiduciary claim as a deduction the amount of depreciation estimated to have occurred in the value of property owned by the estate?

In the case of a trust estate where the terms of the will or trust, or the decree of a court of competent jurisdiction provides for keeping the corpus of the estate intact, and where physical property forming a part of the corpus of such estate has suffered depreciation through its employment in business, a deduction from gross income for the purpose of caring for this depreciation, where the deduction is applied or held by the fiduciary for making good such depreciation, may be claimed by the fiduciary in his return of income.

Fiduciaries when making such a claim should set forth, in connection with their returns, the provisions of law, trust, or decree requiring such depreciation deduction where any exists, or when actual depreciation occurs, the amount thereof, and that the same has been or will be preserved and applied as such. All amounts paid by fiduciaries to beneficiaries of trust estates from income of such trust estates, whether from reserves or otherwise, are held to be distributions of income, and will be treated for income-tax purposes in accordance with the provisions of law and regulations applicable to the income of such beneficiaries.

126. What returns are required from a fiduciary in the United States where the beneficiaries of the trust are non-resident alien individuals?

Where a fiduciary in the United States is the recipient of trust income for which there is but one beneficiary, and that beneficiary a nonresident alien, the fiduciary will be required to make full and complete return on income-tax Form 1040 or 1040 A, as the case may be, for this trust income on behalf of the nonresident alien and pay any and all tax shown by such return to be due. Where there are two or more beneficiaries, one or all of whom are nonresident aliens, the fiduciary shall render a return on Form 1041 for and in behalf of the trust estate and a personal return on Form 1040 or 1040 A for each nonresident alien beneficiary.

WITHHOLDING OF TAX.

127. At what rates and from what income is the normal income tax now to be deducted and withheld at the source?

All persons, corporations, partnerships, associations, or insurance companies paying any amount of fixed or determinable gain, profit, or income, other than that paid as dividends on the capital stock or from the net earnings, profits, or income of corporations, joint-stock companies, etc., subject to a like tax, to a nonresident alien individual, are required to deduct and withhold normal tax at the rate of 2 per cent from the entire amount paid.

Normal income tax at the rate of 6 per cent is to be withheld from all payments of interest upon bonds, mortgages, deeds of trust, or other similar obligations of domestic or other resident corporations, joint-stock companies, associations, or insurance companies, when paid to foreign corporations, joint-stock companies, associations, or insurance companies having no office or place of business in the United States.

When dividends are paid upon the capital stock or from the net earnings of domestic or other resident corporations, joint-stock companies, associations, or insurance companies, to foreign corporations, joint-stock companies, etc., having no office or place of business in the United States, normal tax at the rate of 2 per cent is to be withheld.

No amount of tax is to be withheld from any payment of income made to a partnership, whether domestic or foreign.

The normal income tax is not to be deducted and withheld from any payment of income made to a citizen or resident of the United States except when derived from interest on a bond, mortgage, or

other obligation issued by a domestic or resident corporation which contains a contract or provision by which the obligor agrees to pay any portion of the tax imposed by the Federal income-tax law upon the obligee or to reimburse the obligee for any portion of the tax which the obligor may be required or permitted to pay thereon, or to retain therefrom, under any law of the United States. That is, if interest is paid upon any obligation of a domestic or resident corporation, joint-stock company, etc., which contains a so-called "tax-free" or "no-deduction" clause to a citizen or resident of the United States normal tax at the rate of 2 per cent is to be withheld, unless personal exemption is claimed, and then only from the amount paid in excess of the exemption claimed.

A State, county, municipality, or any other political subdivision of a State is not required to withhold any amount of income tax from interest which it may pay upon its own obligations, even though such interest is paid to nonresident alien individuals or foreign corporations.

128. Is a corporation required to actually deduct and withhold the normal income tax from the amounts of interest it pays on bonds which contain a so-called "tax-free" or "no-deduction" clause; or may it pay that interest in full and hold itself liable for payment of the tax from its own funds?

The stipulation in the bonds of a corporation whereby the tax which may be assessed against them, or the income therefrom, is guaranteed, is held to be a contract wholly between the corporation and the bondholder. The debtor corporation will be held liable for the amount of tax due, whether that tax is actually deducted and withheld, or the interest paid in full and responsibility for payment of the tax assumed by the corporation.

129. How may a citizen or resident of the United States secure the benefit of personal exemption to which he is entitled when receiving a payment of interest on bonds containing a so-called "tax-free" or "no-deduction" clause?

By attaching to the interest coupons an income-tax exemption certificate, Form 1001, revised January, 1918. If exemption is not desired, Form 1000, revised January, 1918, should be used.

RELEASE OF TAX HERETOFORE BUT NOT NOW REQUIRED TO BE WITHHELD.

130. Will I be required to make a return of, and be held liable for, the amount of normal tax which I deducted and withheld during the year 1917, prior to the passage of the war-revenue act of October 3, 1917, from income paid to citizens or residents of the United States?

No. Section 1212 of the act of October 3, 1917, provides that any amount heretofore withheld by any withholding agent, as required by Title I of the act of September 8, 1916, on account of the tax imposed upon the income of any individual, a citizen or resident of the United States, for the calendar year of 1917, except that withheld from interest paid on bonds containing a "tax-free" or "no deduction" clause, shall be released and paid over to such individual.

Therefore, any amount of normal tax withheld during the year 1917 from income paid to a citizen or resident of the United States, except interest on bonds and mortgages or deeds of trust, or other similar obligations of corporations, joint-stock companies, etc., containing a so-called "tax-free" or "no deduction" clause, may now be released and paid over to such individual and no return or payment of such tax will be required from the withholding agent.

RETURN AND PAYMENT OF TAX WITHHELD AT THE SOURCE.

131. How is tax withheld at the source to be returned and paid?

Tax withheld from income other than interest on corporate obligations shall be reported to the collector of internal revenue for your district on income tax Form 1042 on or after February 1, but not later than March 1 of the year next succeeding the year during which the withholding occurred. Tax withheld from interest on corporate obligations shall be reported to the collector on Form 1012 within 20 days after the close of the month during which the withholding occurred, and a summary of such monthly returns shall be made to the collector on or after February 1, but not later than March 1, on Form 1013.

Payment of the amount of tax assessed against a withholding return shall be made to the collector of internal revenue in whose district the withholding agent is located.

132. What should a withholding return show?

The name and address of the withholding agent, character of income, and the name and address of the recipient, amount of income, exemption claimed, if any, and the amount of tax withheld.

RETURNS OF INFORMATION.

133. From whom are returns of information required?

Section 26, act of September 8, 1916, as amended provides that every corporation, joint-stock company, or association or insurance company subject to the Federal income tax on its own income shall, when required by the Commissioner of Internal Revenue, render a correct return, duly verified under oath, of its payments of dividends whether made in cash or its equivalent or in stock, which return shall give the names and addresses of the stockholders, the number of shares owned by each, the aggregate amount of dividends received by each, and the tax years and the applicable amounts in which such dividends were earned.

Section 27, same act, provides that every person, corporation, partnership, or association doing business as a broker on any exchange or board of trade or other similar place of business shall, when required by the Commissioner of Internal Revenue, render a correct return, duly verified under oath, showing the names and addresses of customers for whom any business has been transacted, with such details as to profits, losses, or other information which the Commissioner of Internal Revenue may require to enable him to determine whether all income tax due on profits or gains of such customers has been paid.

Section 28, same act, provides that all persons, corporations, partnerships, associations, and insurance companies making a payment to any person, corporation, partnership, association, or insurance company of interest, rent, salaries, wages, premiums, or other items of fixed and determinable gains, profits, and income (other than dividends on stocks or gains or profits derived from transactions on any exchange or board of trade or other similar place of business) of \$800 or more during any calendar year shall render a true and accurate return covering the payments made, which return shall disclose the names and addresses of the recipients of such payments and the aggregate amount paid to each during the calendar year.

Under this section returns of information will also be required, regardless of amounts paid, in the case of payments of interest upon bonds and mortgages or deeds of trust or other similar obligations of corporations, joint-stock companies, associations, and insurance companies, and also in the case of collections of items (not payable in the United States) of interest upon the bonds of foreign countries and interest upon bonds and dividends from the stock of foreign corporations, from all persons, corporations, partnerships, or associations which undertake as a matter of business or profit the collection of foreign payments of interest or dividends by means of coupons, checks, or bills of exchange.

Under the provisions of section 9 of the act of September 8, 1916, as amended, no person, corporation, partnership, or association can undertake as a matter of business or for profit the collection of foreign payments of interest or dividends by means of coupons, checks, or bills of exchange without first obtaining a license from the Commissioner of Internal Revenue, and whoever knowingly undertakes to collect such payments as aforesaid without having obtained a license therefor or without complying with prescribed regulations shall be deemed guilty of a misdemeanor and for each offense be fined in a sum not exceeding \$5,000 or imprisoned for a term not exceeding one year, or both, in the discretion of the court.

The returns which will be required under the provisions of sections 26, 27, and 28 are to be rendered under such rules and regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may prescribe, which rules and regulations are now in course of preparation and will soon be announced.

134. I pay an annual rent, exceeding \$800 in amount, to an agent who refuses to disclose the name of the landlord. May I require the agent to furnish me with the name and address of his principal in order that I may make a proper return of information?

Yes. When an agent receives, in behalf of his principal, a payment falling within the provisions of law for information at the source, he is required by law to furnish the name and address of the principal upon receipt of a demand therefor from the payer, and in default of a compliance with such a demand the agent becomes liable to a penalty of not less than \$20 nor more than \$1,000.

135. Where a person receives a cash compensation for services rendered, and in addition thereto commissions, living expenses, or other allowances, is the aggregate amount of

cash plus the value to such person of the allowances to be returned?

Yes. A return under section 28 is required in each case where the cash compensation plus the value of the allowances equals or exceeds \$800 for the tax year.

PAYMENT, ABATEMENT, AND REFUND OF TAX ASSESSED.

136. To whom is an assessment of income tax to be paid?

To the collector of internal revenue with whom your return was filed and from whom a receipt will be received.

137. When does payment of income tax assessed against an individual become due and payable?

The tax is to be paid upon receipt of a notice from the collector of internal revenue of the amount of tax due, and at all events not later than June 15. If the tax is not paid by June 15, the collector will issue a second notice and demand therefor, and if at the expiration of 10 days from date of this notice the tax remains unpaid it becomes delinquent. The penalty for such delinquency is 5 per cent of the amount of tax unpaid and interest at the rate of 1 per cent per month upon such tax from the time the same became due to date of payment.

138. What recourse has a taxpayer when he feels that he has been assessed with income tax in excess of his true tax liability?

He may exercise his right to file with the collector of internal revenue for his district a claim for abatement, executed on Form 47, copies of which may be obtained from the collector. The filing of such a claim prior to the due date of the tax acts as a stay to the collection of the 5 per cent penalty for delinquency in payment, provided, in case of rejection of the claim, the tax due is paid within 10 days from the date of notice of such rejection. However, in case of rejection, interest at the rate of 1 per cent per month will run from the date of the notice served prior to the filing of the claim and until the tax due is paid.

It should be understood, however, that the filing of a claim for abatement of tax alleged to have been erroneously assessed does not operate as a suspension of the collection of the tax. If the collector feels that the suspension of collection will jeopardize the interests of the Government, he may collect the tax and leave the taxpayer to his remedy by a claim for refund.

139. On my 1916 return I was assessed with income tax in excess of my true tax liability and same was paid. How may I secure a refund?

By filing with the collector of internal revenue for your district a claim for refund, executed on Form 46, copies of which may be obtained from the collector.

140. In 1917 I paid \$50 income tax in excess of my true tax liability for the year 1916. Can this excess payment be applied in payment of a later assessment of tax?

No. An excess payment of tax in one year can not be offset against an assessment of tax for a subsequent year.

141. Can an assessment of income tax be paid in installments?

Section 1009, act of October 3, 1917, provides that taxpayers liable for income tax may make payments of such tax in advance, in installments, or in whole, of an amount not in excess of the estimated tax which will be due from them, and upon determination of the tax actually due, any amount paid in excess shall be refunded as taxes erroneously collected, and credit against such tax so paid in advance may be allowed in an amount not to exceed 3 per cent per annum, collected upon the amount so paid from the date of such payment to the date now fixed by law for such payment; but no such credit shall be allowed on payments in excess of taxes determined to be due, nor on payments made after four and one-half months after the close of the taxable year. In case of an undertaking to pay tax in installments, and default of any installment, the penalty for failure to pay tax when due will attach.

Rules for the calculation of the 3 per cent credit on account of advance payment of tax, or a reduction otherwise of the amount of tax assessable on a return of income by means of advance payments, are fully set forth in Treasury Decision 2622.

INSPECTION OF RETURNS.

142. Will any information contained in my personal return be disclosed to another?

No. The law specifically provides that any information relative to an individual's income and deductions, obtained from his personal return, or otherwise, in connection with the income tax, shall be inviolably confidential, and it is unlawful for any employee of the United States to divulge or make known such information in any manner whatsoever to any person, except the proper officers and employees of the Treasury Department, or to the proper officers of a court for use in a trial of any case to which both the United States and the person rendering the return are parties; and any offense against this provision of law will be held to be a misdemeanor and be punishable by a fine not exceeding \$1,000, or imprisonment not exceeding one year, or both, at the discretion of the court, and dismissal from the service of the Government.

143. If my attorney requests a copy of my return or any information relative thereto, will his request be granted?

No; unless the return was rendered by him for and in your behalf, or he submits an authorization, personally signed by you, permitting the copy or information to be given to him.

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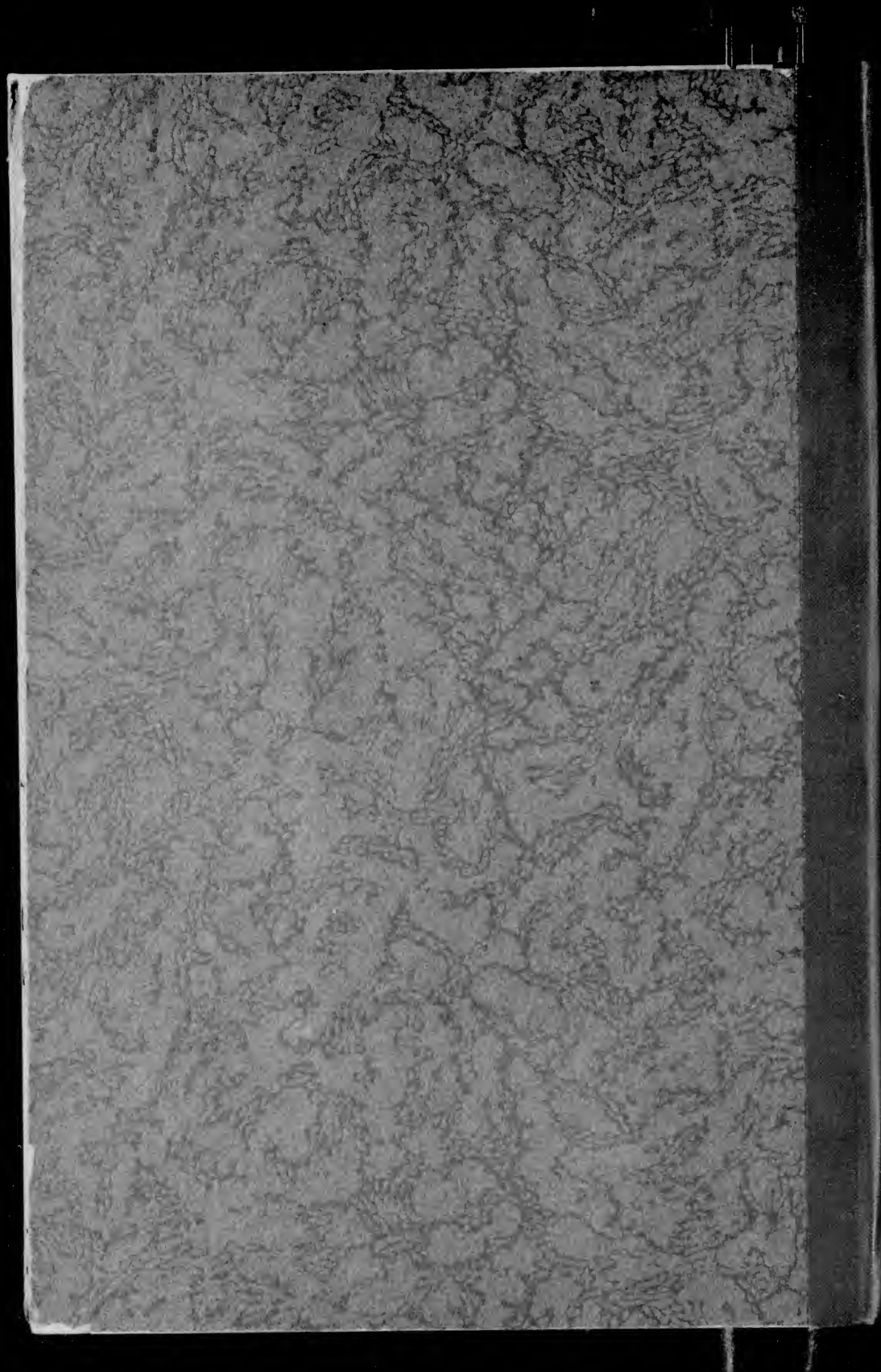
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